

WATER/KPC/FLC:jrb**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION****RESOLUTION W-4563****October 6, 2005****R E S O L U T I O N**

**(RES. W-4563), SOUTHERN CALIFORNIA WATER COMPANY,
REGION III. RESOLUTION RECORDING STATUS OF RESERVE
ACCOUNT RECOVERY FILING AND RESULTS OF EARNINGS
TESTS.**

SUMMARY

This resolution approves Advice Letter 1181-W-B filed July 5, 2005 by Southern California Water Company (SoCal) as required by Decision (D).03-06-072, June 19, 2003 (the Decision) in the Balancing Account OIR¹, subsequently modified by D.04-03-049, March 29, 2004. SoCal is seeking to recover the net under-collections in its purchased water, purchased power, and pump tax reserve accounts booked after November 29, 2001 and before January 1, 2004. This resolution provides a status report on the filing and memorializes the resulting account balances.

BACKGROUND

As required by the Decision, each Class A² water utility must file for recovery, on or before March 31 of the following year, of reserve account balances accrued in the calendar year, as adjusted by an earnings test.

This filing addresses reserve account balances accrued in Region III in three timeframes: (1) November 30 through December 31, 2001 (December 2001), (2) January 1 through December 31, 2002 (calendar year 2002), and (3) January 1 through December 31, 2003 (calendar year 2003). SoCal addressed the three timeframes in one advice letter.

¹ OIR 01-12-009 "Order Instituting Rulemaking on the Commission's Own Motion to Evaluate Existing Practices and Policies for Processing Offset Rate Increases and Balancing Accounts in the Water Industry to Decide Whether New Processes are Needed"

² A Class A Water Utility serves over 10,000 service connections.

The balance in each timeframe must be adjusted by any over-earnings during the time period (November 30 through December 31, 2001 over-earnings are calculated at one-twelfth of the over-earnings for calendar year 2001). Additionally, any revenues already received due to Commission-approved revenue offsets must be credited to the reserve account to determine the amount of recovery or refund. All calculations include interest at the 90-day commercial paper rate.

This advice letter requests the following³:

SoCal provides water service to 94,350 metered and 941 flat rate customers in Region III. Region III consists of Barstow, Calipatria-Niland, Claremont, Desert, Orange County, San Dimas, San Gabriel, and Wrightwood Customer Service Areas (CSA). Rates are set under a regional rates plan authorized by D.00-06-075. The present rates for Barstow, Calipatria-Niland, Claremont, Orange County, San Dimas, and San Gabriel Valley CSAs became effective on January 1, 2005 by Advice Letter No. 1179-W-A as authorized by D.04-03-039. The present rates for the Desert CSA and Wrightwood CSA are those authorized by D.00-06-075. Pursuant to D.00-06-075 these rates are “frozen” until the regional rate exceeds them.

Advice Letter No. 1181-W-B requests recovery of purchased power, purchased water, and pump tax (“supply expense” in SoCal’s terminology) reserve account balances accrued in the 25 month period from November 29, 2001 through December 31, 2003, for Region III. SoCal is requesting recovery of \$2,968,406 which represents 94% of the Region III adopted revenues. SoCal proposes to add a surcharge of \$0.09630/Ccf to the metered rate and \$1.3201 per customer per month to the flat rate for a period of twelve-months in Region III.

According to the amended filing, for calendar year 2001 SoCal’s recorded rate of return (with adjustments) in Region III was 11.02%. The authorized rate of return was 8.94%. For 2002, the recorded rate of return was 10.21%. The authorized rate of return was 8.94%. For calendar year 2003, the authorized rate of return was 8.94%. The realized rate of return was 9.09%

³ Percentages are based on the last adopted revenue requirement for the CSA.

DISCUSSION

This Advice Letter was filed in compliance with D.03-06-072 (the Decision), which was subsequently modified by D.04-03-049, March 29, 2004. D.03-06-072 Conclusion of Law 6 states:

“Consistent with the procedures designated in Appendix A, a utility shall seek review of under and over collections in accounts by filing an annual Advice Letter with the Commission’s Water Division. Except as designated in Appendix A, account recovery or refund will be implemented in the utility’s next general rate case decision. Upon authorization of the new general rate case rates, the previous account will be closed. Each utility’s annual Advice Letter seeking account review shall be filed by March 31 of the year following the year, which is the subject of the request. A utility’s Advice Letter seeking account review for November 29, 2001 through December 31, 2002 shall be filed no later than 90 days from the mailing date of this decision. ”

The existing procedure for recovery of reserve accounts is as follows:

- (1) Class A water utilities must file on or before March 31 of the following calendar year to recover purchased power, purchased water and pump tax (groundwater extraction charge) reserve account balances through December 31 of the prior calendar year.
- (2) The total of the reserve account balances in each district must undergo a recorded earnings test.
- (3) Based upon the results of the earnings test, reserve account balances must be adjusted to account for revenues in excess of the utility’s last authorized rate of return.
- (4) Utilities, at their option, may request a surcharge once under-collections reach 2% of their last authorized revenue requirement. Balances of under 2% (either under-collections or over-collections) shall be retained for later recovery.
- (5) Otherwise, balancing account review and recovery of remaining balances are processed at the time of the utility’s next General Rate Case.

The Advice Letter has been determined to be eligible for disposition. Water Division’s (WD) analysis is as follows:

For December 2001, the combined expense component in the supply expense reserve account was \$127,656 with interest. However, SoCal had over-earnings in Region III for

that period of \$246,600, so the net incremental expense recovery is zero. It also collected \$42,765 with interest in incremental revenues during December 2001. Thus the net over-collection for 2001 is \$42,765, to be returned to the ratepayers.

For 2002 the combined expense component in the supply expense reserve accounts was \$3,685,444 with interest. However, SoCal over earned \$1,815,808 in Region III for that period, so the net incremental expense recovery is \$1,869,636. It also collected \$716,795 with interest in incremental revenues during 2002. Thus the net under-collection for 2002 is \$1,152,841.

For 2003 the combined expense component in the supply expense reserve account was \$2,745,415 with interest. However, SoCal had over-earnings in Region III for that period of \$212,797, so the net incremental expense recovery is \$2,532,618. It also collected \$674,288 with interest in incremental revenues during 2003. The net under-collection for 2003 is \$1,858,330.

The resulting balance of \$2,968,406 is 3.94% of the last adopted revenues of \$75,253,700 for the Region III CSA. As this is more than two percent but less than 5%, recovery should be over one year. SoCal requests to be allowed to institute a surcharge of \$0.09630 per Ccf for metered customers and \$1.3201 per customer per month for flat rate customers for 12 months. The monthly bill for a residential customer with a 5/8" by 3/4" meter would be an increase as follows:

| CSA | Avg Usage | Current | Proposed | Monthly Impact | % |
|-----------------------|-----------|---------|----------|----------------|------|
| Barstow | 31 | \$63.10 | \$66.08 | \$2.99 | 4.73 |
| Calipatria- Niland | 35 | \$69.48 | \$72.85 | \$3.37 | 4.85 |
| Claremont | 36 | \$71.07 | \$74.54 | \$3.47 | 4.88 |
| Orange | 23 | \$50.34 | \$52.55 | \$2.21 | 4.40 |
| San Dimas | 30 | \$61.50 | \$64.39 | \$2.89 | 4.70 |
| San Gabriel | 21 | \$47.15 | \$49.17 | \$2.02 | 4.29 |

Pursuant to the decision establishing regional rates, rates in Apple Valley, Morongo Valley, and Wrightwood CSAs are frozen until such time that the regional rate equals or exceed the rates in these CSAs.

The calculations were checked by WD and found to be in conformance with the Decision. SoCal should be allowed to impose the requested surcharges.

Earnings Test Results

As a result of the earnings test, ratepayers were relieved of paying the following revenues to SoCal, with no impairment to SoCal to earn its authorized rate of return in the District.

| CSA | Amount Saved 2001 | Amount Saved 2002 | Amount Saved 2003 | Total |
|------------|----------------------|----------------------|----------------------|-------------|
| Region III | \$127,656 | \$1,815,808 | \$212,797 | \$2,156,261 |

NOTICE AND PROTESTS

SoCal has given public notice of the request for an increase by publishing in a local newspaper per the following table:

| <u>CSA</u> | <u>Publication Date of Notice</u> |
|-------------------|-----------------------------------|
| Barstow | January 21, 2005 |
| Calipatria-Niland | January 18, 2005 |
| Claremont | January 18, 2005 |
| Orange | January 15, 2005 |
| San Dimas | January 18, 2005 |
| San Gabriel | January 17, 2005 |

Proof of Publication has been provided to staff and no protest letters were received.

COMPLIANCE

SoCal has eight outstanding compliance orders. None are overdue nor do any apply to the districts included in this Advice Letter.

COMMENT

This resolution is an uncontested matter that pertains solely to a water corporation and is exempt by Public Utilities Code Section 311 (g) (3) from the minimum 30 day comment period.

FINDINGS

1. SoCal filed Advice Letter No. 1181-W-B in compliance with Ordering Paragraph No. 2 of D.03-06-072.

2. The application of the earnings test, as required by D.03-06-072, has resulted in savings for SoCal's customers of \$2,156,261 while still allowing SoCal to earn its authorized rate of return in these districts.
3. The existing procedure for recovery of balancing accounts is as follows:
(1) Utilities, at their option, may request a surcharge once under-collections reach 2%; (2) Otherwise, balancing account review and recovery of remaining balances are processed at the time of the utilities' next general rate case.
4. The recovery requested in Advice Letter 1181-W-B is over 2% of the last authorized revenue requirement. Recovery by surcharge should be authorized. This recovery should be tracked in a balancing account.
5. The Commission finds, after investigation by the WD, that the changes requested by SoCal in Advice Letter No. 1181-W-B is justified and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Southern California Water Company is authorized five days after the effective date herein to make effective revised rates as attached to Advice Letter No. 1181-W-B and to concurrently cancel the presently effective rate schedules.
2. Southern California Water Company is directed to keep maintaining its balancing accounts as required by Res. No. W-4467.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 6, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director